



# ANTIGUA AND BARBUDA:

## STRENGTHS AND WEAKNESSES ANALYSIS OF INTERNATIONAL TRADE COMPETITIVENESS

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# ANTIGUA AND BARBUDA:

## STRENGTHS AND WEAKNESSES ANALYSIS OF INTERNATIONAL TRADE COMPETITIVENESS

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## ACRONYMS, ABBREVIATIONS, AND INITIALISMS

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<b>ALP</b>	Antigua Labour Party
<b>CARICOM</b>	Caribbean Community and Common Market
<b>CET</b>	Common external tariff
<b>COTS</b>	Caribbean Open Trade Support
<b>CTO</b>	Caribbean Tourism Organization
<b>DC</b>	District of Columbia
<b>EC\$</b>	Eastern Caribbean dollar
<b>E.U.</b>	European Union
<b>FTAA</b>	Free Trade Agreement of the Americas
<b>Dr.</b>	Doctor
<b>DVA</b>	Domestic value added
<b>EU</b>	European Union
<b>FDI</b>	Foreign direct investment
<b>GDP</b>	Gross domestic product
<b>HDI</b>	Human Development Index
<b>Ibid.</b>	<i>Ibidem</i> [Latin]; in the same place
<b>ICT</b>	Information and communications technology
<b>IDB</b>	Industrial Development Board
<b>I.e.</b>	<i>Id est</i> [Latin]; that is to say; in other words
<b>IMF</b>	International Monetary Fund
<b>Inc.</b>	Incorporated
<b>No.</b>	Number
<b>OAS</b>	Organization of American States
<b>OECS</b>	Organisation of Eastern Caribbean States
<b>Op. cit.</b>	<i>Opere citato</i> [Latin]; work cited
<b>PPP</b>	Purchasing power parity
<b>St.</b>	Saint
<b>SWOT</b>	Strengths, weaknesses, opportunities, threats
<b>TFP</b>	Total factor productivity
<b>U.K.</b>	United Kingdom
<b>UNCTAD</b>	United Nations Conference on Trade and Development
<b>UNDP</b>	United Nations Development Program
<b>U.S.</b>	United States
<b>US\$</b>	United States dollar
<b>USAID</b>	United States Agency for International Development
<b>VAT</b>	Value-added tax
<b>WB</b>	World Bank
<b>WTO</b>	World Trade Organization



# INTRODUCTION

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## **Background**

Antigua and Barbuda expressed concern about its ability to survive in an increasingly competitive environment under the Caribbean Single Market and Economy, which went into effect on January 1, 2006. Under CSME, the governments will lift tariffs among participating members and all citizens from member states can open a business, provide services and move capital throughout the single market without restrictions. The Caribbean governments will also replace national travel documents with a regional passport by 2007. Finally, member nations will have access to bilateral free trade agreements that the Caribbean Community (CARICOM) has already made with Colombia, Cuba, Costa Rica, the Dominican Republic and Venezuela. Earlier concerns about the CSME, as the implementation date drew nearer, leads to questions about the country's ability to compete in the international market through the export of goods and services.

Antigua and Barbuda has benefited greatly from its openness to the world economy due mainly to trade in tourism services. The tourism industry, overall, has remained important to Antigua and Barbuda's economy, because it accounts for 85% of the country's foreign exchange earnings, generates about 60% of the state's gross domestic product and employs 18% of the labor force directly.<sup>1</sup>

In an effort to enhance its competitiveness in a more open trading environment, Antigua and Barbuda is moving towards diversifying its tourism sector through an emphasis on sporting tourism, with which lies enormous growth potential. In other words, Antigua and Barbuda realizes the need to satisfy the growing demand for receiving more from vacation packages while also creating backward linkages to the national economy. The recently formed Antigua and Barbuda Sports Tourism Alliance (ABSTA), which emerged from the 1977 Antigua Sports Tourism Association (ASTC) is designed to enrich the offerings of its tourism industry. The Jolly Beach Resort has remained competitive by catering to those vacationers who are active and seek other activities besides merely relaxing on the beach. The emphasis on sporting tourism also addresses the needs of visitors who travel to watch and participate in sports events, both regionally and internationally. For example, the Jolly Beach hotel is preparing for the ICC Cricket World Cup 2007 by ensuring the quality of its cricket pitches and outfields and bowling and batting nets for training if necessary.<sup>2</sup> The Antigua and Barbuda Tourism Strategic Policy and Plan (2005-2009), which was prepared by the Ministry of Tourism in 2004, also seeks to take advantage of sports tourism and the Cricket World Cup by: 1) putting in place a corporate income tax holiday for a time period based on the number of rooms for the event, 2) relief on stamp duties, property taxes and non-citizen landholding licensing fees based on the total number of rooms for the event, 3) a percentage tax credit for financial institutions based on the amount of investment, 4) waiver of customs duty and consumption tax on the imports of building materials, equipment, appliances, and vehicles used for the event and 5) the right to repatriate all capital royalties, dividends and profit free of all taxes.<sup>3</sup>

Another form of sporting tourism that has provided opportunities to remain competitive and contribute to the national economy is the emphasis on sailing. According to a 2005 World Bank

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<sup>1</sup> Dr. Clarence C. Henry, "A Wave of a Time," *Business Focus* June/July 2005: 42-43.

<sup>2</sup> KAM Wright, "Jolly Beach Resort: Bridging Sports and Tourism," *Business Focus* June/July 2005: 36.

<sup>3</sup> This is based on the most recent draft of the Tourism Strategic Plan obtained from the Ministry of Tourism in Antigua and Barbuda in July 2005.

report, entitled *Organization of Eastern Caribbean States: Towards a New Agenda for Growth*, Antigua and Barbuda remains a significant player among the OECS countries in the yachting sector, which is growing rapidly because of higher per capital spending of visitors (112). Annually, Antigua and Barbuda hosts the week long Antigua Sailing regatta, which provides economic opportunities for local sail makers, nightclub operators, laundry facilities, restaurants, yacht clubs, food stores, living facilities (i.e. apartments, hotels), taxi services, and local handicraft producers.<sup>4</sup> The impact of the sailing regatta on other industries and sub-sectors creates employment opportunities, helps to sustain business and attracts much needed investment, while also giving Antigua and Barbuda a competitive edge over other Caribbean nations.

The diversification of the tourism sector becomes increasingly important, as Antigua and Barbuda's share of the world tourist market in terms of "sun, sea and sand products"<sup>5</sup> has diminished due to the lack of price competitiveness. Low-cost, low price tourism destinations offering exceptional beaches, a deep and varied cultural heritage, and both low and high price tourist experiences in the Dominican Republic and Cuba in the Caribbean region, and India in Asia threaten Antigua and Barbuda's competitive position.<sup>6</sup> Continued efforts to rethink its development strategy for the coming decades will help Antigua and Barbuda remain an active player in the international tourism market.

Antigua and Barbuda is similar to many countries in an increasingly globalized and competitive world. It faces pressures of high wages amid competition from lower-cost service and production platforms, and must vie for a limited supply of foreign direct investment.

However, Antigua and Barbuda is *unlike* many developing countries in that it will not have to make major adjustments subsequent to bilateral, regional, or global trade agreements, such as the Caribbean Common Market (CARICOM), Caribbean Single Market and Economy (CSME), the Free Trade Area of the Americas (FTAA), or the World Trade Organization (WTO). Antigua is already exposed to trade, particularly trade in tourism services. Perforce it already *is* competitive with other countries in this industry worldwide. There are *no* significant barriers to trade in tourism services, the only barriers being those in visa restrictions for tourists or long-term residency by retired persons. Similarly, the tourism sector in Antigua does not enjoy preferential access to any market, unless one would think of the national language, English, as giving it preferential access to English-speaking countries and tourists.

A close examination of other sectors further reveals the challenges that Antigua and Barbuda faces in both regional and global trading markets. Since Antigua and Barbuda's agricultural sector is largely for subsistence farming, or, at most, for sale in the domestic market, further trade liberalization will not have a negative impact on this sector to any significant extent. The limited agricultural activity in Antigua and Barbuda substantially subsided due to its inability to compete against other agricultural producers (see section entitled *Private Sector*). As a result, the country relies on the importation of most of its foodstuff.

Antigua's manufacturing sector is small in terms of its contribution to the national economy. Manufacturing accounts for a little more than 10 percent of the gross domestic product and consists of mainly light manufacturing industries such as textiles and apparel, distilled liquors,

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<sup>4</sup> Henry 43.

<sup>5</sup> World Bank, *Organization of Eastern Caribbean States: Towards a New Agenda for Growth* (Washington, D.C.: World Bank, 2005) 112.

<sup>6</sup> *Organization of Eastern Caribbean States: Towards a New Agenda for Growth* 113.



and pottery. The major industrial exports are bedding, handicrafts, and electronic components.<sup>7</sup> These exports of manufactured products generally do not gain competitive advantage from preferential access to destination markets. By far the biggest trade barrier is transportation costs, a natural barrier, and one that will be only marginally impacted by increased trade liberalization under CSME, the FTAA, or the WTO.<sup>8</sup> Hence, further trade liberalization will not have a significant negative impact either on Antigua's ability to export agricultural or manufactured products, or on the ability of producers in these sectors to survive by serving the domestic market.

The provisions in the CSME concerning free movement of labor for nationals of CARICOM countries could have a more pronounced effect on Antigua and Barbuda. Under the CSME, labor at higher skill levels and people with higher levels of education from the CARICOM countries will be able to move freely among the countries to seek and take employment. Antigua and Barbuda appears to potentially benefit from the free movement of people and labor. With its relatively high wages, Antigua will be able to attract skilled and educated workers from some of the lower-income CARICOM countries to fill shortages in many skill categories that are presently retarding its ability to move up-market in tourism and to enter more strongly into the medical education and trade in medical services sectors. However, as labor representatives have argued, Antigua and Barbuda may accept non-national workers albeit at lower wages thus, continuing the internal competition for employment.

### **Approach**

This report aims to analyze the strengths and weaknesses of the Antigua and Barbuda economy as it relates to the country's competitiveness in international markets through its exports of goods and services. In this report, competitiveness is defined as the ability to deliver valued goods and services to consumers in export markets at much lower production, marketing, wage and capital costs than the competitor.

The report takes the viewpoint that a country's competitiveness in export markets is a function of five groups of factors: 1) the government interaction with society, 2) the government in its macroeconomic and regulatory operations, 3) the strength of the private sector and its ability to deliver goods and services that create value for consumers, 4) the labor force that produces those goods and services, and 5) macro- and micro-economics. Surrounding these factors are the norms and values of society and how these are expressed through government. This surrounding environment encompasses such issues as the rule of law, corruption, the legitimacy of the government in representing the people on the one hand, and issues such as racism, societal divisions among rich and poor, men and women, and of crime and violence on the other. The quality of the surrounding environment has been found to have a major impact on the economy of countries and on the ability of its firms to be competitive in export markets.

The first five sections of the report are organized by the main determinants of economic growth and prosperity – government and society, regulatory environment, private sector, labor market

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<sup>7</sup> CIA World Factbook

<sup>8</sup> Possibly increased trade volumes under the CSME, the CET, and free trade among CARICOM countries will increase intra-CARICOM trade to the extent that freight rates will fall and/or local monopolies in shipping will be broken as competitors enter. This effect will be small, and to the extent that it occurs, will be a long time coming.

Actually under the current trade regime, transportation costs work in favor of Antigua's small exports of manufactured and agricultural products – and this advantage is unlikely to change over time. Since the value of imported goods is about twenty times the value of exported goods, containers come in full and go out empty. In order to attract business to fill these empty containers, outgoing freight rates are a fraction of incoming ones.

and human capital, and the micro and macro-economy. Each section contains an analysis of the endogenous strengths and weaknesses as they pertain to the ability of Antigua and Barbuda to compete in a freer trade regime subsequent to the changes brought on by CSME and other international agreements. The first section looks at the government-society relations, in which the weak relationship and statist approach by government negatively impacts the country's ability to successfully compete for FDI. The second section reveals the need for the country to focus on enabling the private sector to meet international health and safety standards. Section three discusses the many opportunities that the private sector presents, even though it is dominated by small firms that have yet to organize among themselves and act collectively in order to function more effectively and competitively. Section four discusses the relationship between macroeconomic policy - fiscal policy, monetary and exchange rate policies, account deficits – on Antigua and Barbuda's micro-economy.

The results in this report should be considered as a preliminary analysis that can and will be updated as COTS activities are implemented in Antigua over the life of the project.

### **Methodology**

Various sources were used in assessing the strengths and weaknesses of Antigua and Barbuda's competitiveness in trade. A *Rapid Assessment Team* visited the island of Antigua and interviewed a number of government and private sector officials who were able to provide insight into the situation that each endures in the face of regional and global trade agreements. The members of the team synthesized the information which identifies the strengths and weaknesses of Antigua and Barbuda's capacity for trade.

In addition, statistics and analytical discussions about the Eastern Caribbean's potential for trade competitiveness came from government agencies and local newspapers. World Bank studies, and those from other organizations, also offered statistical and analytical support for the findings presented in this report. Periodicals and magazines such as *The Antigua Sun*, *The Daily Observer*, and *Business Focus* added to the findings regarding Antigua and Barbuda's preparedness for the CSME.

Finally, government websites provided additional information about the state of certain sectors. For example, the Government of Antigua and Barbuda tourism website contained necessary data in order to assess the state of the tourism industry (including tourism services) over the last few years.

## GOVERNMENT AND SOCIETY

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The greatest threat overall to Antigua and Barbuda's government and society is the potential for public disillusionment with the current government. Antiguanians recognize that their country faces extremely challenging macroeconomic problems. The people acted to address these problems in the past election. The new government of Prime Minister Baldwin Spencer is faced with the challenges of creating a new vision and executing the political will to address issues such as downsizing of the civil service, investment reform, to say nothing of the more intractable macroeconomic issues, such as the unsustainable fiscal deficit, the current account deficit, and the debt problem, along with privatization and de-monopolization, all of these being pressing issues.

To gain and maintain the trust and support of society, the government will have to face its macroeconomic challenges. Antigua's ability to remain strong economically is constantly threatened by its macroeconomic instability. In recent years, Antigua and Barbuda, which was once the Caribbean's highest income country alongside Barbados, has failed to fulfill its potential for economic stability. Small, comparable countries such as Singapore, Ireland and Cyprus have surpassed Antigua and Barbuda in terms of per capita income. More specifically, whereas Singapore, Ireland, Cyprus and Antigua and Barbuda each had a per capita income between 5,000 and 10,000 USD in 1975, the per capita incomes for Ireland, Singapore and Cyprus ranged from a little more than 15,000 to over 30,000 USD in 2000. The Caribbean region as a whole only had a per capita income of a little more than 5,000 USD in 2000.<sup>9</sup> With economic stability comes an ability to emphasize international competitiveness as in the cases of Ireland, Singapore and Cyprus. In addition, with macroeconomic stability will come the ability for Antigua and Barbuda to attract foreign investment, which will, in turn, enable efficient private sector led growth.

Foreign direct investment is crucial for the strength and stability of the Antigua and Barbudan economy. Foreign direct investment in Antigua and Barbuda has declined from the 1980s to the early part of the 21<sup>st</sup> century. According to IMF International Finance Statistics, during the 1980s, the FDI to GDP ratio reached a little more than 10 percent; more than 5 percent, 1990s; and 5.1 percent, 2000-2002.<sup>10</sup> But, one must take into account that the challenge is not only to attract FDI, but to use the investment efficiently and towards developing other productive sectors. Attracting private investment will require an improved investment climate with better government promotion and facilitation services, less government red tape, generally higher quality service, a more attractive set of investment incentives and a better investment law. Conceptually, the government can provide all of these. Through an effective privatization and de-monopolization program, the government can also overcome the financing bottleneck for physical infrastructure development.

Privatization does not necessarily mean salvation, however. The process must be transparent, ensuring competent bidders with financial means, and accomplished fairly and professionally, not through favoritism or through underhanded means. Granting monopoly rights (as would be the case for the port and the airport) to private investors does not necessarily bring about development of superior facilities, efficiency, or low costs and prices. As many countries have discovered, private monopoly with government sanction, unless correctly done and administered, can lead to disaster. There may also be some potential for private investment in

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<sup>9</sup> World Bank, *A Time to Choose: Caribbean Development in the 21st Century: Caribbean Development in the 21<sup>st</sup> Century*, (Washington, D.C.: World Bank, 2005). xvi.

<sup>10</sup> *A Time to Choose: Caribbean Development in the 21st Century* 47.

the road infrastructure, although this would not be a major initiative. The 'biggest' issue in terms of privatization is the fact that government is the biggest owner of land, thereby severely limiting the ability of commercial/industrial/residential development.

### **Strengths**

**Pluralistic democracy.** Antigua and Barbuda has a well-functioning, pluralistic democracy that has recently seen a peaceful change from the party in power after decades of its single-party rule. This stability, continuity, and promised increased transparency by the government of Prime Minister Baldwin Spencer has the potential to give both foreign and domestic investors a feeling of security in their investments, and, hence, increase investment leading to expanded exports of tourism-related and other services in the country.

**Racial harmony.** Unlike several other countries in the Eastern Caribbean region, there are fewer racial divides in Antigua and Barbuda that have translated into political and ideological divides. Although crime and violence are said to be on the rise, they are far below the levels in many of the countries in the region. Both these factors impact positively on Antigua's image abroad as a tourist and investment destination. If properly promoted, this strength could result in increases in the level of investment in the export of tourism related services and, ultimately, expansion of other exports.

**Initial movement in government reform.** The government has begun to explore downsizing and redeploying its workforce, and engaging in urgent public sector reform and development issues. It has also moved forward on issues of taxation (especially introducing the Value Added Tax (VAT) and personal income tax), and considered other changes in laws and regulations to come into conformance with the strictures of the CSME, and Antigua's commitments that will come into force in 2006 under WTO. Some international donor assistance from the IMF, USAID, and others is in place to assist in their implementation. Many of these issues, however, need to be confronted head-on in order to move the debate that stalls action on some of these fronts.

**Organization of American States Trade Information Database.** Antigua has a department responsible for gathering, compiling, and analyzing economic and trade data. This department suffers from the same problem as do other regulatory agencies. Regardless of the size of the country, more or less the same set of data is needed by exporters and other private sector investors. The data collection, compiling, and analysis system does not adequately serve the needs of the private sector, particularly the services-oriented private sector. New assistance from the OAS should, however, augment the trade and data resources that the government has been able to amass thus far.

In June 2005, the OAS Office of Trade, Growth, and Competitiveness produced for, and presented to, Antigua and Barbuda a customized Trade Information Database. Antigua and Barbuda is one of 11 CARICOM countries to receive such a database in order to help facilitate access to trade-related information and increase the capacity of small states to negotiate, implement, and administer trade agreements. It is also designed to enable Antigua and Barbuda to take advantage of benefits offered by freer trade, such as more options for expanded foreign direct investment. The database was designed to be a single, user-friendly mechanism to access regional and country-specific data. It includes tariff and trade data, informative articles, full texts of trade agreements, bilateral investment treaties, and national legislation in trade and related disciplines. It is now incumbent upon the government of Antigua and Barbuda, Chamber

of Commerce, Employers' Federation, and other groups to utilize this extensive and valuable resource.<sup>11</sup>

**A workable majority in Parliament.** Each of the weaknesses outlined in this report can be addressed by the government, if the will to do so exists. The Spencer government has a workable majority in parliament, although the size of this majority has recently been reduced by defections from his party. At least in theory, the government has the ability to decisively address the many pressing issues the country is facing.

## **Weaknesses**

**Lack of promised new direction in government policy.** In mid-2004, a new government was elected by a large margin after over three decades of rule by the same party—in fact by the same family - the Bird family. This change in regime was motivated by a widespread belief that Antigua and Barbuda needed a new direction and a new impetus to move it forward after years of relative stagnation, mismanagement and inappropriate administrative behavior at all levels of government. Antiguan and Barbudans decided it was “time for a change.” At present, in late 2005—more than a year and a half later—however, change has not occurred at the pace expected by citizens, and prospects for significant progress may have vanished through inaction. Citizens have recently taken to the streets to demonstrate against the perceived ineffectiveness of the government. This has occurred in tandem with defections in the majority party, and rumors of replacement of important government ministers.

**Missed opportunities.** There is a sense throughout Antigua of missed opportunities. For example, the promised flood of new investment projects has yet to materialize. Additionally, a new law to invigorate the foreign investment agency in Antigua has languished for more than a year awaiting second reading. Antigua has had no investment in a major new hotel in over twenty years. A new investment law would be a first start at attracting such investment and would ultimately lead to expansion of tourism related services and, potentially, other service sectors. Similarly, for the tourism sector to go upscale, increase domestic value added, and widen its offerings to increased retirement, yachting, and medical tourism, new large investments are required. A new investment law would facilitate attracting these investments.

**Failure to follow through with all CSME commitments.** The government of Antigua has lagged behind in terms of fulfilling the commitments to the CSME and to the WTO on trade-related investment incentives. On January 1, 2006, the CSME went into effect with the participation of only six Caribbean nations. Barbados, Belize, Guyana, Jamaica, Suriname, and Trinidad and Tobago completed the legal steps to participate in the trade accord.<sup>12</sup> The other countries have expressed a commitment to be a part of the process no later than the second quarter of 2006.<sup>13</sup> Based upon the most recent information gathered in the country, Antigua and Barbuda still has to fulfill its commitment to:

- draft implementation of regulations to allow for the free movement of professionals, skilled workers, self employed service providers, and investors
- review its current legal framework to identify any conflicting or incompatible legislation that must be modified or repealed

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<sup>11</sup> Though this database exists, it does not include statistical information that would be used for policy development and analysis, nor is it complete in terms of offering information on a full range of companies in Antigua and Barbuda. Developing a statistical database, inclusive of the services sector, is an activity that COTS will be working on.

<sup>12</sup> “Caribbean economic trade bloc takes partial effect,” *Jamaica Observer* 3 Jan. 2006.

<sup>13</sup> Rickey Singh, “Gonzales arranging special OECS Summit on OECS,” *Jamaica Observer* 4 Jan. 2006.

- redraft model OECS/CARICOM Laws on accreditation and equivalency standards
- draft implementation regulations to remove restrictions on the right of establishment

The full commitment of some within the government of Antigua and Barbuda has been difficult to gauge. Some government ministers, for example, have made statements to the effect that the CSME will cause problems for Antigua, or that unless CARICOM increases the size of the adjustment fund to which OECS countries have access, Antigua will not join the CSME. The adjustment fund will provide financial assistance to those countries that will be even more economically displaced under the CSME in order to provide time to adjust to the requirements of the single market economy. As recently as November 2005, Prime Minister Baldwin Spencer stated during a national address that Antigua and Barbuda needs to receive special and preferential treatment if the CSME is to benefit all of the territories involved, since there are huge trade deficits and an asymmetrical relationship throughout the region.<sup>14</sup> It is important to note that the reluctance on the part of Antigua and Barbuda stems from concerns over lack of preparation for a single market economy.

**Fiscal problems and a bloated public government workforce.** The government of Antigua and Barbuda has begun to address the country's fiscal situation and its bloated government workforce—both legacies of the past government. To date, however, these measures have not been anywhere near the extent needed to solve the problems. The government share of the workforce in Antigua is over 30 percent, the highest in the region.<sup>15</sup> Antigua and Barbuda's relatively high private sector wages, in turn, increase the costs for doing business in industries such as tourism, business process outsourcing, and other tradable—predominately service—sectors. The result is reduced margins and profits, causing firms to increase their prices, without corresponding increase in quality of service product.

The government has initiated a program to reduce public sector employment and relative wage levels through early retirement buyout packages and wage restraints. At best, however, the effects of this reduction on the budget will be small, and felt only gradually over time. Meanwhile, most government workers resent this decline from their former level of prominence and many of them have become less, rather than more, receptive to the concept that as “public servants” their job is to serve the public. Despite the recent demonstration that the public has the power to change the governing party, the current government does not seem to have understood the concept that unless it performs in relationship to the needs and desires of the public, it can be replaced as well.

Overall, a bloated public service sector requires more taxes on private enterprise (and personal income taxes as well), which in turn reduces the profitability of their operations and their incentive to invest to expand output and exports.

**Remnants of “statist” perspective on the role of government in the economy persist.** There is a more fundamental weakness in government and in society in Antigua and Barbuda. It has been over a decade since the government began to privatize some of its assets. Despite statements by both politicians and bureaucrats concerning the central role of the private sector in national economic development, the concept of government as setting the enabling environment for private sector growth has still not taken root. Moreover, a change in vision and attitude concerning the most effective role for government will take many years.<sup>16</sup>

<sup>14</sup> Patricia Campbell, “PM Spencer spells out CSME challenges,” *Antigua Sun* 3 Nov. 2005.

<sup>15</sup> Please see *Organization of Eastern Caribbean States: Towards a New Agenda for Growth*.

<sup>16</sup> The concept of the private sector as the most effective role for government will be analyzed below.

In order for Antigua and Barbuda to play a competitive role in the Eastern Caribbean and world markets, it will have to shift away from the current government regulated micro-economy. Government regulation of the domestic market has resulted in inefficient microeconomic practices, rent-seeking and an inexpedient bureaucracy as in the case of Zaire (currently the Democratic Republic of the Congo) and Mexico during the latter half of the 1970s.<sup>17</sup>

To be competitive in the export of goods and services requires, 1) First and foremost, a service orientation; 2) Second, flexibility in meeting customer demands; and 2) Thirdly, a genuine belief that the customer is always right. These attitudes are not ones that are in plentiful supply in government.<sup>18</sup> The government has put up huge billboards in clear view of tourists that read "Tourism is everyone's business." Yet, this message has not yet reached customs and immigration officials at the airport.

**Inability to pass a Foreign Investment Act.** The Foreign Investment Act remains becalmed in parliament. The act needs to be passed, however, to create, fund, staff, and organize a new investment promotion agency. The head of the existing agency tasked with investment promotion, the Industrial Development Board (IDB), has recently resigned to join the private sector. Among other things, this law is needed to breathe life into the proposed investment promotion agency. Ideally, the new investment law should set up as an independent unit located either under the office of the Prime Minister, or directly under the Minister of Finance. This agency should receive substantial funding and should be outside the government's overall downsizing initiatives.

The investment promotion agency should develop its own website to provide information on the investment environment in Antigua and Barbuda so as to promote the country as a destination for investment, in general, and in tourist-related investment in particular. In addition to investment promotion, the agency should be tasked with investment monitoring, and more importantly investment facilitation to ease the passage of investors through Antigua's regulatory system. The agency should also be tasked with data collection, policy analysis, and policy advocacy from investors' point of view. At present, the government unit responsible for investment has only a few staff members, is isolated from the upper levels of government, and has no resources. This situation must change if Antigua is to attract the requisite amounts of investment that will be needed to move its export-oriented service sectors such as tourism, medical services, and transportation logistics forward.

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<sup>17</sup> Please see Sylvia Maxfield and Ben Ross Schneider, Business and the State in Developing Countries, (Ithaca: Cornell University Press, 1997) and René Lemerchand, "The Politics of Penury in Rural Zaire: The View from Bandundu," Zaire: The Political Economy of Underdevelopment, ed. Guy Gran, (New York: Praeger, 1979).

<sup>18</sup> Russia's Intourist and India's State Tourist Board provide evidence of the negative impact of state involvement in tourism.





## REGULATORY SYSTEM

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Antigua and Barbuda cannot afford to remain with the status quo in the government's regulation of the micro- economy. The country does not have the problems that many countries have in having to adjust to an open trading system; it already operates in one. Its problem is that past successes necessitate that it add significant value to its offerings in tourism services exports in order to validate and justify its relatively high wages and costs. Despite its real strengths as an exporter of tourism services, Antigua and Barbuda is under severe competitive attack—an attack, which, to date, it has not been successful in meeting as shown by its relative decline in income level and rank in the Human Development Index. The status quo is an option, but it is an option that, if taken, will have unfortunately consequences.

### **Strengths**

**Donor and multilateral assistance.** Antigua and Barbuda has already received donor assistance to address the problems in its regulation of the micro-economy. A USAID-funded program has already developed an “Investor Roadmap” that details the regulatory system faced by investors. The USAID-funded Caribbean Open Trade Support (COTS) program will begin to implement the recommendations of that report in order to reduce the regulatory burden on investors. The OAS has recently funded a trade information project and turned the resultant information center over to the government. COTS also has a trade data component. The Caribbean Tourism Organization (CTO), if asked, will conduct surveys to obtain data on the characteristics of tourist arrivals, their expenditures (by amount and type), and objectives in coming to Antigua and Barbuda, and to what extent these objectives were met. This information is vital if the tourism sector is to move upscale to deliver higher value to justify the high costs and prices of a vacation in Antigua and Barbuda.

In addition to US government funded projects, a few Caribbean agencies have offered assistance to the government to help develop the private sector throughout the Eastern Caribbean. CaribExport offers funding to public agencies to assist the development of the manufacturing, services and consulting sectors. The Caribbean HRD Program for Economic Competitiveness provides support to public agencies to assist the agriculture, tourism, credit unions and construction sectors.<sup>19</sup>

### **Weaknesses**

**Diseconomies of scale.** Government regulates commercial and industrial activities to some degree in all countries. Some level of standardization and regulation is necessary for, among other things, engaging in trading relationships with other countries. However, regulation is a challenge for small countries such as Antigua and Barbuda, due to economies of scale in government regulation, in which the costs of regulation exceed the ability to regulate efficiently. For example, to develop and administer a system of product or service standards takes both wide-ranging expertise and also many highly specialized, and often expensive, pieces of equipment. To have a modern, full service standards operation in a small country like Antigua would be prohibitively expensive and not cost effective. But without such an organization, how can private sector investors be certified to be in conformance with standards? The result is often a “compromise” in which the appearance of a full-fledged regulatory system is developed, but

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<sup>19</sup> Organization of Eastern Caribbean States: Towards a New Agenda for Growth 79.

expertise and funding are lacking. This situation can lead to the worst of both worlds: a pervasive, but inept regulatory system.

**Regulatory system is costly to administer.** The entire regulatory system as it applies to the private sector is complicated, costly to administer and to work within, and ineffective in achieving regulatory goals. In an increasingly competitive world, the costs of regulation cannot be “passed on to the consumer”, since the ultimate consumer is often a tourist who is well able to go elsewhere next time. Hence, long lines at customs and immigration are now more costly to Antigua and Barbuda than they were in the past, given the mobility of tourists to destinations around the globe. A similar situation exists for foreign investors. They are geographically mobile, especially given the mobility that modern communications offer; therefore, Antigua and Barbuda must offer something ‘more or better’ to attract such investments as the country competes with other worldwide locations.

**Problems with land access.** In Antigua and Barbuda, there is an ongoing problem with land registration, land use, and land ownership and leasing despite government efforts to offer tax incentives. This problem has discouraged foreign investors from coming to Antigua (or more precisely, it has caused them to leave prior to investing, when they have come to invest). Several issues have made it difficult to attract and maintain foreign direct investment. The difficulty in gaining access to land as a result of the long time that it takes to acquire land,<sup>20</sup> minimal market information, poor industrial property planning, discriminatory land sales and tax rates for non-citizens, and a weak legal system to resolve disputes and address grievances associated with land access, hinders investment.

Branded international hotel chains have not invested heavily in Antigua and Barbuda for at least one of the reasons mentioned above - difficulty in acquiring land in a reasonable length of time. The one international hotel chain that did come, Sandals, based in Jamaica, acquired an *existing* hotel property and just renovated and expanded it for precisely this reason: it did not have to deal with the land issue.<sup>21</sup> Also, appropriate planning is vital to preserve one of Antigua and Barbuda's main assets – numerous and comparatively modestly developed, unspoiled beaches and vistas. Especially as this relates to tourism development, a comprehensive master land use plan with appropriate restrictions based on aesthetics, environment, infrastructure capacity, and community input, needs to be enacted and enforced. The enforcement of good standards related to health, environment, construction, and safety are also required to preserve Antigua and Barbuda's relatively unspoiled natural assets.

**Poor standards in some industries.** There is a particular need to develop, disseminate, and use health, safety, and quality standards. This is relevant for all sectors of the economy, but certainly in the hotel sector in particular, and in agricultural products that may be supplied to hotels, as a result of initiatives to increase domestic value added in tourism exports. Environmental standards are also becoming more important as marketing tools, both for health reasons, and as part of the increasingly important “green” and environmentally friendly tourism.

The issue of standards extends beyond the tourism industry. A representative from the Ministry of Agriculture indicated that the fisheries sector is highly uncompetitive in export markets because of the lack of facilities to test their products in order to comply with international seafood regulations. The inability to test the quality of seafood also makes it difficult for the

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<sup>20</sup> It may take nine weeks, but in a number of cases the waiting period is longer, because cabinet approval is required on all leases. The ideal time would be that of Singapore – 20 days or less.

<sup>21</sup> Bruce Baxter COTS Rapid Assessment Notes, October 2005.

Antigua and Barbuda fisheries sector to move towards value added fish exports. As a result, the industry mainly relies on its exports of live lobsters to the European Union. Because legal affairs remains very slow in the area of passing and enforcing standards legislation, and testing laboratories are costly, it makes it difficult for those seeking to export high quality, standards compliant seafood, and other products, to outside markets.<sup>22</sup>

**High priced energy.** Energy costs are higher in Antigua than the average for other islands in the region.<sup>23</sup> One such area where energy costs are high is electricity. These high energy costs are driven by: 1) the costs of primary energy used to generate electricity, 2) costs of generation, transmission and distribution assets, 3) efficiency of the supply, generation, transmission and distribution systems and 4) government subsidies or taxes.<sup>24</sup> Antigua and Barbuda's commercial electricity rate exceeds that of Grenada and St. Kitts<sup>25</sup> at 17 US cents per kWh, compared to 16 US cents per kWh for the latter two islands. Trinidad and Tobago has the lowest electricity costs at about 3 US cents per kWh.<sup>26</sup> These high costs of energy roll into proportionally higher costs for air conditioning in hotels, restaurants and other businesses.

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<sup>22</sup> COTS will be assessing the opportunity to support some upgrade in the testing laboratory in Antigua, but will also assess the opportunity for businesses in Antigua and Barbuda to make additional use of the regional testing laboratory in Trinidad.

<sup>23</sup> Energy costs are even higher in Dominica, about 35 percent over the regional average.

<sup>24</sup> *Organization of Eastern Caribbean States: Towards a New Agenda for Growth: Towards a new agenda for growth* 100.

<sup>25</sup> Does not include Nevis, because Nevis has an electricity company that is managed separated from St. Kitts.

<sup>26</sup> *Organization of Eastern Caribbean States: Towards a New Agenda for Growth: Towards a new agenda for growth* 100.



## PRIVATE SECTOR

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Nowhere is the relationship between weaknesses and opportunities clearer than in the private sector. The lack of trust and cooperation among firms in the private sector in Antigua and Barbuda presents a challenge to the ability of the country to expand opportunities in trade. Additionally, the small number of firms is usually dispersed, which results in the lack of communication and coordination within the private sector in order to identify areas of competitiveness. This is further hindered by a relative monopoly of access to the government by a small number of large firms in the country.

Antigua and Barbuda is one of the most tourism-intensive countries in the world as measured by tourist arrivals per capita, by tourism receipts as a percent of exports, or as a percentage of GDP. Antigua's tourist sector is the mainstay of the economy and has delivered prosperity to the country: GDP per capita (at Purchasing Power Parity, PPP) was over ten thousand (US) dollars in 2003, among the highest in the Caribbean.<sup>27</sup> Wages were also high, again supported by tourism. Due to high transportation costs and a high import content of consumption, prices are also high in Antigua—equal or greater than those in the US, even though Antigua's income level is only one quarter of the U.S. level.<sup>28</sup>

The tourism sector in Antigua and Barbuda is at a crossroads. Business as usual, a strategy that has sufficed for decades, does not seem to be an option. The industry is being increasingly squeezed in a slow-growth middle market position by high and rising costs, and prices capped by competition from lower-cost destinations. Its beaches, weather, and location are no longer enough to justify its high wages against the offerings of its competitors. To move up-market, and to develop a competitive advantage in tourism services, will require extensive private investment in better facilities, and significant staff training in customer service, quality control and improved application of health, environment and safety standards.

Fierce competition from other Caribbean nations and changes in preferential access for certain agricultural commodities has already trampled Antigua and Barbuda's agriculture industry. The nation has not been successful in reinstituting the importance of its agriculture industry after the collapse of the sugar industry two decades ago. Like most Caribbean nations, Antigua and Barbuda relied on sugar for over 200 years. But by the 1980s, the once dominant sugar industry was inflicted with inefficient production, a continual decrease in world prices and declining yields. Whereas world sugar production costs declined by 40 percent since the 1980s, those in the Caribbean have continued to increase due to increasing wages, inefficient field and factory performance and an inefficient public sector with weak management skills.<sup>29</sup> The decision by the region's largest market – the United States – to substantially reduce import quotas created intense competition against which Antigua and Barbuda could not compete. In addition, the U.S. refusal to allow sugar among other goods preferential access to its market under the Caribbean Basin Initiative made it even more difficult for the island to revive the sugar industry. The CBI was designed under President Ronald Reagan to boost exports throughout the region in order to help the Caribbean nations develop economically.

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<sup>27</sup> Among Caribbean countries, Antigua's GDP/Capita at PPP of US\$10,294 is below that of the Bahamas (US\$17,159), Barbados (US\$15,720), St. Kitts and Nevis (US\$12,404), and Trinidad and Tobago (US\$10,766), but above that of the other countries in the region. See UNDP-HDR 2005.

<sup>28</sup> Antigua's GDP at PPP is about the same as its nominal GDP measured in US dollars, i.e., no adjustment is necessary to reflect differing prices between the US and Antigua as is usually the case with lower-income countries.

<sup>29</sup> *A Time to Choose: Caribbean Development in the 21st Century* xxvi

Twenty years later, Antigua and Barbuda still does not have any other dominant agricultural activity. The inability to identify alternative natural resources has negatively impacted employment and competitiveness in the agriculture industry as a whole. For example, in 1991 employment in agriculture only accounted for 4% of total employment, which is down from 12% in 1984.<sup>30</sup> Agriculture's employment percent is also by far the lowest rate among the OECS countries.<sup>31</sup> Furthermore, agriculture only comprises 4 percent of the country's GDP. Because of the lack of natural resources, Antigua and Barbuda remains highly limited in terms of the goods that it can produce and export at lower costs. As a result, many of the foods, for example, that are available on the island are imported items.

In addition, Antigua and Barbuda has also had a difficult time identifying a dominant competitive manufacturing activity. The business associations have been limited in their capacity to develop the private sector. The manufacturing sector only accounts for 12.5 percent of domestic GDP. In 2000 alone, the manufacturing output increased 4%, and only 3% in 2001.<sup>32</sup> The inability to find a dominant manufacturing industry arises from Antigua and Barbuda's high labor wages, which surpass those of other Eastern Caribbean states. Yet shortages of skilled and educated labor are frequently cited as impediments to further investment in tourism, professional business services, and other industries on the island.

Nevertheless, local manufacturers do have access to the US, European, Caribbean markets through the Caribbean Basin Initiative, the Lome Convention, and CARICOM. They lose their competitive advantage in terms of higher wage rates compared to other Eastern Caribbean countries such as Trinidad. There is some manufacturing of such items as paints, garments, furniture, bedding, and galvanized iron sheets.

At present, there is a golden opportunity to markedly enhance the strength of the private sector both by direct intervention in the private sector firms and associations, and in government institutions. The greatest threat is if this opportunity is missed even in part.

Antigua and Barbuda has two major private sector associations – the Small Business Association and the Chamber of Commerce – that have expressed a desire to work more closely with the public sector. These two associations seek government support to overcome the challenges to developing the private sector, such as access to capital, boosting competitiveness in a high wage environment, addressing the issue of soaring energy costs and developing the capacity to help the private sector add value to its products.

## **Strengths**

**Private firms that do not rely on protectionist trade policies.** Antigua and Barbuda has a growing private sector largely characterized by single or family entrepreneurs, rather than publicly traded corporations. These firms have proven to be adaptable, willing to seize opportunities, and willing to take the risks of investing in industries that are not protected by trade barriers or do not have preferential access either to the domestic or international markets. As such, the private sector in Antigua is not facing dislocation and restructuring from either the removal of domestic market protection (as in the case of the private sector in such countries as Guyana and Suriname), or in removal of preferential access in international markets for such

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<sup>30</sup> *Organization of Eastern Caribbean States: Towards a New Agenda for Growth* 8; Please the Library of Congress' site [www.country-data.com](http://www.country-data.com).

<sup>31</sup> *Organization of Eastern Caribbean States: Towards a New Agenda for Growth* 8.

<sup>32</sup> High Commission of Antigua and Barbuda Budget Speech 2001.

products as sugar and bananas.<sup>33</sup> As an example, only 2 percent of Antigua and Barbuda's exports to the U.S. enter under some form of preferential access, compared to over 50 percent for Dominica's exports. A growing private sector that is not shrouded by the veil of protectionism should be able to access less expensive inputs and technology in order to add value to its exports so that it will be more competitive in both the regional and international market.

**Tourism product.** Antigua has realized its advantages in tourism mainly arising from its location, weather, and white-sand beaches. Non-stop flights are available to the U.S., Canada, and Europe. "Antigua" is a brand name known in tourism around the world. In addition, as yet, Antigua and Barbuda still has substantial vacant, unused land, including some remaining beachfront properties, at prices that are far below those in Barbados. As yet, there is not a substantial pollution or cleanliness problem as in some neighboring countries. Antigua's natural harbors now attract high-end tourism in yachting. Its commercial main harbor is sufficiently large to berth more than one large ship at a time and can accommodate the largest cruise ships. Its high level of development and tourism has led to the investment in supermarkets, golf courses, shopping areas, hotels, and resorts, such that tourists and retirees can be "at home away from home", a powerful advantage over some lower-income neighboring countries, such as Dominica, in attracting long-term tourists and retirees.<sup>34</sup>

**Resiliency of tourism.** Antigua's tourism sector is also very resilient. Tourist arrivals declined about 7 percent after September 11, 2001, and cruise passenger arrivals declined by 10 percent. These declines would have been larger except for deep price cutting by travel and cruise operators. By 2004, however, both arrivals of overnight tourists and cruise passenger arrivals had recovered and surpassed their levels in 2000 by more than 20 percent.<sup>35</sup>

**Potential uses of land for agriculture.** Given Antigua's plentiful arable land, there is also the potential to use this land for agricultural production linked directly to the real estate development and tourism sectors, both domestic and regional. In the past, Antigua produced large quantities of sugar and, to a lesser extent, cotton. There is no reason why this land cannot be used to produce ornamental horticulture (for landscaping plants), salt-resistant grass (for golf course and other real estate development projects), and specialty vegetables and fruits for the tourism sector, all of which are presently being imported. Antigua's high inward transportation costs and the costs of maintaining the cold chain during all stages of shipping from the field to the end user would also act as a non-tariff barrier to trade, and protect these operations from international competition. Several interviewed local agriculture and horticulture producers stated that they are able to compete with imports for the above-outlined reasons.

Initiatives along these lines have been undertaken by Antiguan entrepreneurs on their own, without government or donor assistance. Investments have been made in growing ornamental tropical shrubs to supplant those currently imported from Florida, according to interviews with local horticulturists. More investment is needed in irrigation so that the operation can achieve economies of scale. Salt resistant grass is being grown on Barbuda, and it is hoped that this operation will be showcased by supplying the grass for the stadium for the world cricket matches in 2007.

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<sup>33</sup> See *Organization of Eastern Caribbean States Towards a New Agenda for Growth* for comparative tables on the level of protection and preferential access among OECS countries and *A Time to Choose: Caribbean Development in the 21st Century* for similar statistics for all the CARICOM countries.

<sup>34</sup> There is still need for substantial upgrade in many of these facilities in order to remain competitive with other locations.

<sup>35</sup> Government of Antigua and Barbuda tourism website, 2005.

**Potential for medical tourism.** There is an opportunity to develop the medical sector as an adjunct to tourism in several ways. Medical tourism, where people from countries with high medical costs, like the U.S., travel to other countries for medical procedures, is projected to grow rapidly over the next decade as the baby boomers get older and have need for more medical attention. As well, there is an unmet demand for medical training by students from the U.S. and other high-income countries. With the founding of American University in Antigua, Antigua is already well advanced along the path to attract foreign medical students, although it is not yet at a level of Dominica or Grenada.<sup>36</sup> Finally, world-class medical services will facilitate increased general tourism, long-stay tourism, and retiree tourism. The Crossroads Center for Drug and Alcohol Rehabilitation (established by Eric Clapton) near Willoughby Bay in Antigua has shown the way in one type of medical tourism. For a similar standard of treatment, its costs and prices are about one third less than at the Betty Ford Clinic in the U.S.

**Potential for Sports Tourism.** Potential exists to market Antigua as a center for sports tourism. The WTO recently described the sun, sea, sand approach to tourism as having reached “the mature/saturation stage for the product life cycle.”<sup>37</sup> With a diversified approach to tourism, Antigua and Barbuda can create linkages to other service providers within the domestic economy such as hotels, restaurants and taxi services. The sports infrastructure to be developed by Sir Vivian Richards can be used by individuals and teams from cold weather climates to train in Antigua during the winter months, or as part of training camps organized for youth and other groups. In 2005, Antigua and Barbuda has made efforts to take advantage of sport tourism, which is evident by efforts of hotels to enhance its infrastructure to accommodate visitors for the 2007 ICC Cricket World Cup, and to promote its annual sailing week.

**Potential for Development of Heritage Site Tourism.** Antigua and Barbuda has numerous heritage sites that can and should be exploited and marketed within the country’s overall tourism package. These include sites such as Saint John’s Cathedral; Gunthorpes and Montpelier Sugar Factories; Shirley Heights; Monk’s Hill; Nelson’s Dockyard; Forts James, Barrington, and Berkely; Redonda Island; Clarence House; and other historical villages and sites. Some developments, such as Nelson’s Dockyard, are well preserved and attractive tourism attractions; but if others of these sites were better developed and in some cases restored, it would add another dimension to Antigua as a destination for cruise ships, and provide an expansion of the tourist services offered to “sun, sand and surf” tourists who come to Antigua primarily for its beaches.

## **Weaknesses**

**A weak structure with a few very large firms and many small ones.** As a whole, the private sector in Antigua and Barbuda is weak. It is dominated by a few very large, family-owned firms whose interests sprawl across the industrial landscape from real estate, to hotels, retail and wholesale trade, and to banking and gaming. Evidence from around the world shows that, in general, size and diversity do not translate into strength or efficiency for family-owned conglomerates.<sup>38</sup> These large firms tend to use their size, and preferential access to domestic and international finance—not superior process technology, efficiency, or new product development—to dominate the sectors in which they operate.

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<sup>36</sup> There is another medical school in Antigua geared toward attracting foreign students. After an initial success it has fallen into disrepute due to actions by its owner.

<sup>37</sup> *Organization for Eastern Caribbean States: Towards a New Agenda for Growth* 113.

<sup>38</sup> Please see Michael Shafer 1997 on Korea and Kenneth Shadlen 2000 on Mexico.



**Lack of healthy public-private partnerships.** Often, one of the prime competitive advantages of Antigua and Barbuda's large family-owned firm is the personal preferential access to government personnel (both elected and bureaucratic) by their owners. Business-government "relations" are conducted informally rather than in more open, formal fora. As a consequence, business associations, whose prime function is to bring before government the positions of their members on issues of concern, are usually weak to non-viable. A few large firms with preferential access to government do not need such associations, and the associations are not in a strong position to represent the many smaller entrepreneurs who do need them. This situation is common in many developing countries, but is heightened in Antigua and Barbuda due to the small size of its economy and of its population. Developing trust and mutual support mechanisms is difficult with this type of industrial structure as well.

**Opaque granting of incentives.** With two notable exceptions—hotels and financial services—foreign investment in Antigua has been low and has not fulfilled its potential.<sup>39</sup> This shortfall has been due, in part, to the rather quixotic relationship the former government had with the private sector in general, and foreign investors, in particular. The foreign investment system, especially the incentives system, in Antigua and Barbuda is non-transparent and highly concessionary. Under the Fiscal Incentives Act, the government may grant incentives for the production of "approved products" by "approved enterprises." The Act further defines an "approved product" and an "approved enterprise" as "one approved by the relevant authority"—a circular definition, and one that gives absolute authority to the "relevant authority" to do whatever it wants if it is so motivated by the investor.<sup>40</sup>

**Understaffed investment promotion agency.** The unit within the government that is mandated with promoting and facilitating investment, including FDI, is grossly understaffed, under-funded, devoid of power to approve all but the smallest investment projects, and largely circumvented in the investment process. This leaves private sector investors—particularly lower profile investors—without a one-stop service center or advocate within the government. Expansion of the investment promotion unit, or creation of a new agency, depends upon the passage of the Investment Act. It is not known why the proposed investment act has not been passed on second reading for more than a year. Since this is not known, there is no way to know how movement towards passage could be fostered, or even when or if passage will occur. COTS has the opportunity to make a major difference to the private sector in this area.

**High wages and costs.** Antigua and Barbuda's economy suffers from high wages (coupled with low productivity), high costs, and, hence, high prices for tourism and other services and products. Already, the Dominican Republic and Cuba have increased their share of the Caribbean (and world) tourism market dramatically, largely at the expense of high-cost

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<sup>39</sup> Although not directly on point in this SWOT analysis, a few words need to be said about the use and abuse of foreign investment statistics in two recent World Bank monographs: *Towards a New Agenda for Growth: Organization of Eastern Caribbean States: Towards a New Agenda for Growth; A Time to Choose: Caribbean Development in the 21st Century: Caribbean Development in the 21st Century*. Both these reports make inappropriate use of FDI statistics for some of the countries in the Caribbean. The reports make two points: using UNCTAD's FDI performance index (which measures a country's FDI share relative to its GDP share in the world), 1) many of the countries in the Caribbean, including Antigua have received a very high share of FDI and 2) in general this relative share, and hence the "FDI performance" of many Caribbean countries, has declined over time. The unit within UNCTAD (the Division on investment, transnational corporations, and technology) that developed the FDI performance measure and publishes *The World Investment Report*, however, specifically excluded many of the countries in the Caribbean, especially several of the OECS countries due to concerns about the quality of the FDI data for these countries. Specifically, it has concerns that the reported FDI data conflate FDI data and data arising from money laundering. It may be no coincidence that Antigua's FDI performance ranking fell from No. 2 in 1990 to #25 in 2002 (and St. Lucia's from No. 4 to No. 64) over the period during which these countries acted to control money laundering whereas the ranking of St. Kitts and Nevis fell from No. 1 only to No. 3 (with reported FDI equal to 25 percent of GDP compared to 5 percent for Antigua and Barbuda).

<sup>40</sup> See Donald J. Lecraw for the CARICOM Secretariat, "Investment Incentives in CARICOM Countries" and supporting documentation.

neighboring countries such as Antigua and Barbuda. Education in tourism-related subjects, such as courses and majors in hotel and restaurant management, is not specifically targeted at providing trained personnel for the tourism industry due to lack of funding and professors with the requisite skills. This lack of tourism focus is a major failing of the educational system, but one that could be addressed, in part, by technical assistance to “train the trainers.” High wages in the tourism and gaming sectors spill over into high wages demanded in agriculture and manufacturing, a prime reason why these sectors experience difficulty maintaining local, regional, and international competitiveness.

**High cost of power.** Electricity prices in Antigua and Barbuda are high and have risen rapidly due to flow through provisions for oil costs in their pricing formulas. Given Antigua and Barbuda's geography and prevailing winds, there is a considerable potential for wind power, if private generators were granted the right to supply the electricity grid at competitive prices. In the more distant future, there is the possibility of developing an inter-island grid to distribute electricity generated by geothermal plants on some islands, such as Dominica and Montserrat.

**Weak competitive advantage in tourism.** Despite all its success and its many strengths, the tourism sector in Antigua and Barbuda has many weaknesses. The sector, with the exception of yachting and some minimal retirement tourism, is still predominantly focused on mid-level sand, surf, and sun tourism. Of all tourism categories, this type of tourism is projected to have the slowest growth in the future.<sup>41</sup> Yet, as repeatedly stated in this report, Antigua and Barbuda is a high-wage, high cost country. At present, operators of tourist facilities, despite the relatively high prices they charge, are caught in a price-cost squeeze with prices “capped” by other, lower cost, lower price neighbors, and costs driven by high wages and high transportation costs for imported inputs. Hence, for many operators, margins are thin; and even at these low margins, capacity utilization is low. Even these thin margins will come under attack in the future from low cost operations in the Dominican Republic and, with regime change, especially in Cuba.

**Few alternatives to all-inclusive beach tourism.** Just as Antigua's location and beaches have given it advantages in the tourism sector, its geography and history have created disadvantages from the point of view of tourism development. Beyond its beaches, it has not developed significant scenic wonders or venues for alternative tourism such as nature, hiking, and cultural tourism. There is some potential for broadening Antigua's tourist offerings through reconstructing some of its heritage sites. There is a well-developed, and well-thought out initiative to develop these sites. Unfortunately, there are no government funds for this initiative.

**Sea transportation.** At present, transportation costs, especially by sea, are high due to the low volumes of goods being shipped from one country to another, and to the oligopoly position of shippers on most routes, especially inter-island routes. If trade among the CARICOM countries increases due to the CSME, these conditions may change in the future.

**Telecommunications.** Telecommunications prices are relatively high in Antigua compared to several of the neighboring islands, and relative to international costs. The cost of internet connections is also quite high. Antigua and Barbuda trails behind the Bahamas and Jamaica in terms of its high monthly costs for faster internet service. High speed internet costs about US\$400 a month in Antigua and Barbuda, which far surpasses the US\$40-50 a month costs for the same service in the United States. These relatively high costs reduce Antigua's competitive position in ICT, trade generally, and, to some extent, in tourism.

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<sup>41</sup> See *A Time to Choose: Caribbean Development in the 21st Century* for comparative costs and prices.

## LABOR MARKET AND HUMAN CAPITAL

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Organized labor in Antigua and Barbuda has just emerged from a decades-long era in which its interests were directly represented in the ruling government party, the Antigua Labour Party (ALP). Organized labor understands that the relative size of government must shrink, as must the relative size of the government workforce, according to an interview with a labor union head. It is also cognizant of the overall impact of globalization on the bargaining power of labor in an increasingly competitive world. Finally, the labor movement has concerns about the impact of the CSME on labor migration, especially from lower income countries to higher income ones, such as Antigua.

Organized labor, however, does not want to see the coming trade-related adjustments that Antigua and Barbuda must undertake to be largely at the expense of workers—a reasonable position. They realize they must make significant accommodations to reflect economic reality. They remain uncertain of how best to make these accommodations while protecting the interests and rights of its members.

There would seem to be an opportunity for enhanced dialogue and negotiations between labor, as represented by the employees' unions, and the private sector, represented by the Employers' Federation.<sup>42</sup> The gravest threat in the labor sector is if the opportunity for dialogue with labor is not seized quickly. Inevitably, the government will have to deal with the severe problems with Antigua and Barbuda's budget and current account deficits, and the consequent international debt facing the country. It would be beneficial, therefore, if a union-employer dialogue and negotiations would commence immediately so that shared information and trust could be developed before an economic crisis hits. It is always easier to build trust and understanding during relatively stable times (as at present), rather than during a crisis and subsequent economic contraction.

### **Strengths**

**Flexible, non-ideological labor force.** The labor force—its quality, availability, and orientation—is the third leg on which the economy stands or falls. Skills are important for achieving and maintaining competitiveness—i.e., the ability to deliver value to consumers above the costs of production, distribution, and marketing. Building a strong skill base is particularly important for Antigua and Barbuda, given its orientation toward tourism and other services. Antigua and Barbuda scores relatively high in combined primary and secondary enrollment rates and in adult literacy compared to other countries in the Caribbean. All in all, Antigua and Barbuda's Human Development index ranking is much higher than its ranking based on GDP per capita at PPP.<sup>43</sup> This demonstrates that, in general, the country's human resources are well developed relative to its income level.

**Potential for Employers' Federation.** There is an Employer's Federation that has recently been set up to try to regularize the wage setting process and make it more transparent. Higher wages and better working conditions will keep skilled workers in the country who can move towards more advanced, competitive industries—those industries that required advanced factors of production (i.e. technology). As noted above, however, like many private sector

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<sup>42</sup> The above analysis is based on presentations and interrogations by both labor and employers at the joint World Bank-EU meeting in Antigua in Nov. 2005 and on private interviews with participants at that meeting.

<sup>43</sup> See UNDP-OECS, *Human Development Report 2002*, OECS Secretariat 2002 and World Bank-OECS 2005 for comparative data in this area.

institutions, the Federation does not have much power, even over many of its members. In fact, some of the Federation's more powerful members have refused to divulge what they consider to be private and proprietary data on sales, costs, and profit margins for use by the Federation in the bargaining process over wages in the private sector.

## **Weaknesses**

**Skills and education.** Antigua and Barbuda's tertiary enrollment rate of 8 percent is relatively low compared to the OECS average (11 percent) and the average for CARICOM as a whole (21 percent)<sup>44</sup>. Overall, the government spends a significantly lower percentage of GDP on education (4.2 percent) than do the OECS nations as a whole (6.1 percent). Moreover, despite repeated statements by the government concerning developing appropriate quality education targeted at emerging sectors (such as ICT and tourism), both curricula and teacher skills in these areas need to be improved much further in the future than they have been in the recent past. Without a skilled, trained, and educated workforce it will be difficult, even impossible, to pursue a strategy of upgrading the services export sector of the economy, increasing domestic value added, or broadening tourism offerings to medical and retirement tourism. Further, to be internationally competitive, skills development and enhancement is an on-going process. At present, sub-par labor quality is sometimes evidenced in a broad range of services, from banking to tourism to construction.

**Exodus of skilled workforce.** Antigua and Barbuda faces a problem common to many English-speaking countries in the Caribbean—the “brain drain”. Given the country's relatively high income level, the lure of working and living in the U.S. and U.K. has been proportionately less than in lower income countries, such as Guyana. Nonetheless, it has been substantial. At a recent E.U.-World Bank forum in Antigua, when the moderator was asked how to prevent this drain on national resources, he responded, “Don't train your workers in skills that are valuable abroad.” However, a skilled workforce will allow the country to participate in more specialized industries requiring more skills and education. As a result, the workers will be able to move into more technologically advanced—and hence, competitive—industries.

**Market rigidity.** Overall, although more flexible than many countries in the region, there is still significant labor market rigidity in Antigua and Barbuda—i.e., the wage rate is not sufficiently responsive to supply and demand movements, but rather, is set by the bargaining power of the labor sector against the private sector. In recent years—over the recession and recovery after September 11, 2001—wages have risen faster than productivity gains. There is some evidence of rising unemployment (as one would expect), especially unemployment among young males who are just entering the labor force. There needs to be cooperation among labor, private sector employers, and government, to train the workforce in the appropriate skills that are, and will be, needed in the future to facilitate increases in tourism exports on the one hand, and to work together so that wages in Antigua do not price the country out of the market for tourism, business services, business process outsourcing, and other sectors.

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<sup>44</sup> *Organization of Eastern Caribbean States: Towards a New Agenda for Growth* 58.

## MACRO AND MICRO-ECONOMY

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Antigua and Barbuda faces many economic challenges in the future. Its current account and budget deficits, in addition to high external debt, have an impact on the stability of the economy, lead to growing distrust by the population, and reduce the attractiveness of the country as a place to do business. Antigua and Barbuda has already had experience with a sharp “adjustment.” In 1995, due to its debt situation, the economy contracted by 4.2 percent, compared to 7.1 percent growth in 1994. After bilateral negotiations with several lending countries, Antigua and Barbuda was able to reschedule a significant portion of its debt and the crisis was resolved. In 1996 the economy rebounded from the debt crisis and grew by 3.5 percent and by 9.2 percent in 1997. At this time, however, the country’s debt as a percentage of GDP is much higher than it was in the mid-1990s, and the costs of “adjustment” are thus likely to be more severe.<sup>45</sup>

Returning to a manageable debt-to-GDP ratio of 60 percent would require a “fiscal adjustment” of over 22 percent of GDP—i.e., there would have to be some combination of an increase in taxation or reduction in expenditure of 22 percent of GDP, an impossible amount to achieve without the most draconian measures. The government is already “in arrears” on some of its payments, although not as yet wage payments. With per capita income of over US\$ 10,000, Antigua and Barbuda cannot expect debt forgiveness, although as in the past it may be able to negotiate debt restructuring.

The threat is for a collapse in investor confidence in the government’s willingness or ability to pay its debts. Antigua and Barbuda would quickly be cut off from world credit markets, a severe problem for a country that is running a huge trade and current account deficit. The government’s financial position has also had an impact on the real interest rates at which the private sector can borrow in Antigua and Barbuda. Real borrowing rates in Antigua and Barbuda are on the order of 7 percent, far higher than in the U.S., and they have not fallen as sharply since the early 2000s, as have rates in the US. These relatively high rates are a threat to the private sector in its drive to lower costs to be competitive internationally.

### **Strengths**

**Monetary and exchange rate policies bring stability and low interest rates.** One of the strengths of the Antigua economy has been its use of the Eastern Caribbean dollar as its currency. For over three decades (starting before independence), the countries that now comprise the OECS have maintained a common currency, pegged at US\$ 1 to EC\$ 2.70. The absolute stability of the EC dollar against the U.S. dollar has been a major achievement for OECS countries, and a major incentive for foreign investment in the region. A stable currency has also led to relatively low real interest rates. Among OECS countries, Antigua and Barbuda had the *lowest* real interest rates, despite the perception, or at least the vocal protest, to the contrary of the private sector.

**Trade regime.** Antigua and Barbuda is very open to trade, with relatively low tariffs and few quantitative restrictions. The country’s merchandise exports do not benefit significantly from preferential access or treatment in export markets; they compete on their own merits. Most of Antigua and Barbuda’s exports are in services, specifically in tourism exports. Merchandise exports equal only about 5 percent of merchandise imports, starkly illustrating Antigua and Barbuda’s lack of competitive advantage in goods production for most products.

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<sup>45</sup> See UNDP-OECS 2002 for economic growth rates.

**Low tax environment leaves room to employ additional fiscal adjustment instruments.**

The only “strength” in Antigua and Barbuda’s fiscal situation is the fact that there is room to add additional taxes, since the country is a relatively low-tax country in practice.<sup>46</sup> This low level of taxes is in part due to concessionary investment incentives that have lowered (or eliminated) corporate taxes and duties on imports for an unknown, but probably substantial, number of companies. There is room for tax reform by rationalizing corporate income taxes, introducing a VAT, while at the same time reducing the “import processing fee”, currently at the absurdly high level of 10 percent.

**Weaknesses**

**Large current account deficit.** To achieve exchange rate stability, monetary policy had to focus on maintaining inflation rates in the OECS countries at levels comparable to that in the U.S.; otherwise the real value for the EC dollar would change, potentially leading to trade and current account problems. Fixing the EC dollar to the U.S. dollar, however, exposed the OECS countries to the vagaries of the movement of the U.S. dollar over time, a major *weakness* in their economies. During the late 1990s and through the early 2000s, for example, the trade-weighted real value of the EC dollar rose precipitously. By 2003, however, this value has fallen back to its 1990 level. As a result, exports of both goods and services stagnated in the OECS countries (including Antigua and Barbuda), and imports surged starting in the late 1990s. The result for all the OECS countries has been a gaping trade and current account deficit. In Antigua and Barbuda, the current account deficit is over 10 percent of GDP, an unsustainable level.

**U.S. trade and current account deficit.** The U.S. is running an exceptionally large trade and current account deficit, and is accumulating debt at over three quarters of a *trillion* dollars per year. Eventually this imbalance will have to be addressed, and one of the ways it will be addressed will be a marked decline in the real value of the U.S. dollar. So long as the EC dollar is pegged to the U.S. dollar, it too will decline in real terms. Whether the decline in the U.S. dollar (and hence the EC dollar) will be precipitous or gradual over time cannot be known.<sup>47</sup>

**OECS current account deficits.** OECS countries are running unsustainably large current account deficits that they cannot simply finance by issuing more dollars. So long as the EC dollar is pegged to the U.S. dollar, and when the U.S. dollar is high relative to other world currencies, OECS countries, including Antigua and Barbuda, will continue to stack up international debt, until world markets will no longer accept more of their debt. Alternatively, instead of devaluing the EC dollar, in theory it would be possible to lower wages and costs through tight monetary policy, resulting in an ensuing recession in the OECS countries. At the national level, in theory, rising unemployment in Antigua and Barbuda could lead to falling real wages and hence lower costs. In practice, such a wage and cost deflation would be highly traumatic for both Antigua and Barbuda’s economy and the populace.

**Low DVA in tourism exports.** Antigua and Barbuda has a low level of domestic value added in its tourism exports. Almost all the inputs for the production of Antigua’s tourism exports besides labor are imported—food and beverages, clothing, souvenirs, building materials, even the ornamental horticulture products that landscape the resorts and hotels. The tourism sector has

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<sup>46</sup> Government spending and total taxes raised as a percentage of GDP are relatively low for OECS countries. See Organization for Eastern Caribbean States: *Towards a New Agenda for Growth*.

<sup>47</sup> See Bill Bonner and Addison Wiggin, *Empire of Debt: the rise of an epic financial crisis*, for a particularly grim scenario for the future.

opportunities to increase the level of DVA through developing domestic food supplies targeted at tourists and growing its own bushes, shrubs and grass on its substantial arable land.

**Fiscal policy.** One of the great weaknesses of the Antigua and Barbudan economy has been the propensity of the government to run large budget deficits. The administration of Prime Minister Bird ran large fiscal deficits throughout the 1990s. To buffer the economy from the fall of tourist arrivals and the ever greater fall in tourist receipts consequent to September 11, 2001, the government once again turned to deficit spending. By 2003, budget deficits were about 7 percent of GDP. High budget deficits in turn have led to rising debt over time. The most recent estimate is that the debt-to-GDP ratio is over 140 percent, an unsustainable level.<sup>48</sup> This level of debt implies that a large and rising percentage of the government budget must be devoted to interest payments, rather than for spending on education, health, or infrastructure needed to become competitive in trade.

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<sup>48</sup> Different figures for this ratio appear in different publications. There is no definitive number available. The current government is in the uneasy position of not knowing precisely how much it owes or to whom.





## OPPORTUNITIES FROM COTS INTERVENTION

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Numerous opportunities for the Antigua and Barbuda government and private sector arise from the results found in this report. Of course, this section is a preliminary discussion that may be altered as various programs and activities are carried out in conjunction with numerous public and private sector actors. The opportunities are outlined below (Table 1).

Antigua and Barbuda can potentially gain from the COTS project's intervention in the area of government and society. As part of the activities outlined in the *Draft First-Year Work Plan*, the COTS team will work with the government of Antigua and Barbuda to help pass the Foreign Investment Act and collaborate with the new Investment Authority. With assistance in the area of foreign investment, Antigua and Barbuda can focus on ways to attract such investment and continue to build competitive, export-oriented businesses.

The government of Antigua and Barbuda continues to regulate the economy. Efforts have been made to reduce the role of "political manipulation" in the investment approvals process via the Investment Act and the Investment Code, which governs the Investment Authority.<sup>49</sup> But, the COTS team can assist the government in becoming more involved in monitoring health and safety standards in order to ensure the export of goods that satisfy global trading rules. As a part of the project, the COTS team will work with trade policy advocacy organizations to set up laws that are WTO compliant and increase a technical understanding of health and safety standards.

In addition, representatives from two domestic private sector associations – Small Business Association and the Chamber of Commerce – have expressed enthusiasm towards the objectives and activities of the COTS project. The COTS activities will help the private sector build the competitive capacity of the domestic firms by creating two business service centers, training business service providers, identify potential market prospects for industries such as tourism, and strengthening public-private sector institutions. These activities not only helps the firms trade competitively but also strengthens the partnership between the government and domestic businesses, which creates an environment for more competitive firms and industries.

Future activities under the COTS project will also help Antigua and Barbuda become competitive through the enhancement of the skills of local labor. Current proposed activities include competitiveness courses and training programs in the areas of accounting, marketing, management, data collection and trade and economic analysis, among others. The training provided through the project aims to create a competitive workforce in the country that has an in-depth understanding of regional and global trading regimes and what tools are required in order to remain competitive in an ever-changing trade environment.

Finally, Antigua and Barbuda will have the opportunity to address the macro- and micro-economic barriers to its ability to further its global competitiveness. The COTS team is expected to providing training on issues such as fiscal policy and reducing its deficit. By tackling national level economic barriers, the country can move forward in terms of being globally competitive.

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<sup>49</sup> The Antigua and Barbuda High Commission Newsletter Issue No. 99 May 2005: 2. January 6, 2006 <[www.antigua-barbuda.com](http://www.antigua-barbuda.com)>.

**Table 2: Opportunities for COTS Interventions Based on Strengths and Weaknesses**

	<b>Government and Society</b>	<b>Regulatory System</b>	<b>Private Sector</b>	<b>Labor market and Human Capital</b>	<b>Macro- and Micro-economy</b>
Strengths	<ul style="list-style-type: none"> <li>- Pluralistic democracy</li> <li>- Racial harmony</li> <li>- Initial movement of government reform</li> <li>- OAS trade information database</li> </ul>	<ul style="list-style-type: none"> <li>- Donor, multilateral assistance</li> </ul>	<ul style="list-style-type: none"> <li>- Private firms' support for open market</li> <li>- Tourism product</li> <li>- Resiliency of Tourism</li> <li>- Potential uses of land for agriculture</li> <li>- Potential for medical tourism</li> <li>- Potential for sports tourism</li> <li>- Potential for Heritage Site Tourism</li> </ul>	<ul style="list-style-type: none"> <li>- Flexible, non-ideological labor force</li> <li>- Potential for Employers' Federation</li> </ul>	<ul style="list-style-type: none"> <li>- Monetary and exchange rate policies</li> <li>- Open trade regime</li> <li>- Low tax environment</li> </ul>
Weaknesses	<ul style="list-style-type: none"> <li>- Lack of promised new direction in government policy</li> <li>- Missed opportunities</li> <li>- Failure to follow through with all CSME commitments</li> <li>- Fiscal problems, bloated government workforce</li> <li>- Statist approach</li> <li>- Inability to pass Foreign Investment Act</li> </ul>	<ul style="list-style-type: none"> <li>- Diseconomies of scale</li> <li>- Regulatory system costly to administer</li> <li>- Problems with land access</li> <li>- Poor standards in some industries</li> <li>- High priced energy</li> </ul>	<ul style="list-style-type: none"> <li>- Majority small firms</li> <li>- Unhealthy public-private partnership</li> <li>- Opaque incentive granting system</li> <li>- Understaffed investment promotion agency</li> <li>- High wages/costs</li> <li>- High costs of power</li> <li>- Weak competitive advantage in tourism</li> <li>- Few alternatives to all-inclusive beach tourism</li> <li>- Sea transportation</li> <li>- Telecommunications</li> </ul>	<ul style="list-style-type: none"> <li>- Skills and education</li> <li>- Exodus of skilled workforce</li> <li>- Market rigidity</li> </ul>	<ul style="list-style-type: none"> <li>- Huge account deficit</li> <li>- US trade and account deficit</li> <li>- OECS account deficit</li> <li>- low DVA in tourism exports</li> <li>- Fiscal policy</li> </ul>
<b>COTS intervention opportunities</b>	<ul style="list-style-type: none"> <li>- Work with the government to pass the Foreign Investment Act</li> <li>- Collaborate with the new Investment Promotion Agency</li> </ul>	<ul style="list-style-type: none"> <li>- Work with trade policy advocacy organizations to establish laws that include compliance with WTO rules on international standards</li> </ul>	<ul style="list-style-type: none"> <li>- Create 2 business services centers and train business service providers</li> <li>- Identify market potential for additional cluster opportunities</li> <li>- Strengthen public-private sector institutions</li> </ul>	<ul style="list-style-type: none"> <li>- Training programs on accounting, marketing, management, data collection, trade and economic analysis and other competitiveness courses</li> </ul>	<ul style="list-style-type: none"> <li>- Training on fiscal policy and reducing deficit</li> </ul>

## CONCLUSION

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With the approach of the CSME and opportunities to join other trade regimes, Antigua and Barbuda has a number of issues to address in order to enhance its competitive capabilities in terms of trade. The country has been successful in terms of the export of tourism services. However, its reliance upon its ability to sell sea, sun and surf products is no longer viable. As a result, the country must diversify its activities within, and beyond, the tourism sector in order to become more competitive against other Caribbean countries such as Cuba and the Dominican Republic, that can offer the same vacation spots for far less money. Antigua and Barbuda can do so by looking towards sports tourism as a growing opportunity to compete within the region. At the same time, Antigua and Barbuda still faces a number of challenges in other areas, such as agriculture and manufacturing. In order to understand the country's competitive capabilities, one has to look at the internal structures that impact competitiveness.

Five factors have been key to Antigua and Barbuda's competitive potential. Those determinants are: 1) government and society relations; 2) regulatory environment; 3) private sector; 4) the labor market and human capital and 5) macro- and micro-economic policies. In each of these areas, Antigua and Barbuda possess significant strengths and weaknesses.

Under COTS, Antigua and Barbuda will have the opportunity to build upon the strengths in the five determinant areas, and address its weaknesses. The activities highlighted in the *Draft First Year Work Plan* include working with the government to promote foreign investment, reduce the regulatory role of the government, help develop WTO compliant health and safety standards, establish business service centers, enhance the private sector's competitive capacity, and offer training in areas of macroeconomic policy, marketing and trade and economic analysis, among others. The opportunities that may arise from COTS interventions may change as the COTS team moves forward on implementation of particular activities.